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for energy consumers

For the attention of SEC parties,
DCC and other interested parties.

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Date: 5 June 2017

Dear Stakeholder

Consultation on the implementation of the Operational Performance Regime and direction to populate Schedule 4 of the Smart Meter Communication Licence

This letter outlines our minded to decision on the implementation of the DCC's Operational Performance Regime (OPR). The attached draft notice to this letter outlines the planned changes to Schedule 4 of the Smart Meter Communication Licence ('licence').

Following previous consultation with relevant stakeholders, we have made decisions on the specific performance measures and incentive structure of the OPR. We are therefore not asking you for further views on these issues in this consultation. Instead, we wish to test three specific issues with you before issuing the final direction in July. These are:

- whether the draft direction reflects our policy intent
- the removal of the proposed interim regime in RY 17/18
- the arrangements for dealing with 'exceptional events' within the performance reporting for the OPR.

Background

The government has provided a framework in the DCC licence for Ofgem to establish an OPR that will place performance incentives on DCC once operational. The OPR will place 100% of the value of DCC's smart meter-related margin at risk.

In March 2016 we consulted on the key principles underpinning the design of the OPR.¹ We also asked for suggestions on potential reporting areas and performance metrics for the two measures outlined in Schedule 4 of the licence that we proposed to focus on initially: Service User Measure (SUM) and Service Delivery Measure (SDM).

In November 2016 we consulted on our final proposals on the OPR.² This included the specific metrics for measuring DCC's operational performance and the incentive structure. We also proposed that the regime should start with an interim regime in April 2017 that recognised that DCC would face a period of stabilisation after go-live when performance may be lower. The enduring regime would then start in April 2018.

¹ <https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-principles-and-objectives>

² <https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-final-proposals>

We asked for views on: our proposed measures; the proposed introduction of an interim regime; and the structure of the regime including the weightings applied to each metric and what proportion of margin at risk DCC should retain for meeting the minimum performance level. We received eight responses, most of which broadly agreed with our proposals. Appendix 1 summarises the responses and how they have informed our minded-to decision.

Our minded-to decision

Enduring regime

The enduring regime will begin in April 2018 and will be structured as proposed in the November consultation. The OPR measures are based on a selection of Smart Energy Code (SEC) performance measures and service provider measures. The minimum and target performance levels for the OPR measures will be the same as those stated in the SEC and service provider contracts. Where the measures relate to more than one service provider or service, the OPR performance levels will be weighted based on the number of observations per provider or service and their respective minimum and target performance levels as stipulated in the SEC or service provider contracts. These calculations will be formalised via the OPR regulatory instructions and guidance or 'RIGs'.

A detailed table outlining the measures are in Appendix 2, but in summary the measures and weightings are as follows:

Measure reference	Description	Weighting (Proportion of margin in year t at risk for each measure)
SUM 1	Service Desk (Percentage of severity 1-5 incidents DCC is responsible for resolving which are raised and met within the DCC target resolution time)	20%
SUM 2	Communication hubs (delivered on time and of sufficient quality)	20%
SDM 1	WAN connectivity (Percentage of first time connections at install)	20%
SDM 2	Service requests (Service responses delivered within the target response times)	20%
SDM 3	Service availability (Percentage of time that services do not have unscheduled downtime)	20%

If the DCC fails to meet the minimum performance level for any measure then it will lose all the margin at risk attached to that measure. If DCC meets the minimum performance level it will retain 70% of the margin at risk for that measure. If DCC meets the target performance level, it will retain 100% of the margin at risk for that measure. The margin DCC will retain for any performance level between the minimum and target will be calculated on a simple linear basis.

Each regulatory year the DCC's margin for that year will be at risk based on the annual performance under the OPR. We propose that DCC's margin from RY16/17 and 17/18 which is not currently allocated to an incentive regime will be spread across the remaining years of the smart meter roll out (RY18/19 – RY20/21) in order to provide sharper incentives on DCC to perform in the run up to the 2020 target. This ensures that DCC's margin remains at 100% at risk as required by its licence. This is set out in the accompanying draft direction and includes an adjustment for any interest earned by DCC from recovering margin for 16/17 and 17/18 which is later at risk under the OPR.

Question 1: Do you agree that the accompanying draft direction reflects the policy intent for the enduring regime? If not, please explain using evidence.

Interim regime

We now do not propose to introduce an incentivised interim OPR before the enduring regime begins. As outlined above, the margin originally proposed to be at risk for the interim regime will now be spread across the OPR for the remaining years of the roll out.

Our reasons for this is that DCC's plans for offering the full suite of live operational services ('release 1.3') to their customers is now later than was planned when we published our November consultation. In addition, the volumes of activity in 2017/18 are likely to be lower than we expected at the time of the last consultation. We do not consider it proportionate to incentivise DCC while the low level of activity may produce unreliable and volatile performance results.

Question 2: Do you agree with our minded to position to begin the enduring OPR in April 2018 without an interim regime in this regulatory year? If not, please explain using evidence.

Exceptional events beyond DCC's control and OPR performance reporting

DCC's response to the consultation suggested the inclusion of a mechanism which allows the reporting against the measures to be adjusted for exceptional events which are outside of DCC's control. There is precedent for such arrangements in other regulatory frameworks such as RIIO and we think it is reasonable that the same should apply for DCC.

We consider that current arrangements already allow for incidents or events beyond DCC's control to be adjusted for in DCC's performance measurement methodology report. Section M3 of the SEC states that DCC may claim relief from liability for non-performance in the cases of a 'Force Majeure'³. In addition, the DCC's performance methodology report is provided to SEC parties and makes reference to allowed exceptions which will be listed on a Performance Measurement Exceptions List. This lists circumstances where the service provider is not accountable for performance at a time or event and that period of time or event is therefore removed from the service level calculation. One respondent to the January consultation was concerned with the fact that this list has not been consulted on. We encourage DCC to make a live version of this list transparent to SEC users and to consider representation from them.

Given the current OPR measures are based on SEC and service provider contract performance measures, we want to ensure that all performance reporting is consistent. This is why we want to avoid extra arrangements for considering exceptional events for the OPR which may result in inconsistent reports on DCC's performance when compared to DCC's Monthly Performance Measure Report which is provided to SEC parties.

We will monitor the effectiveness of these arrangements between release 1.3 and the beginning of the OPR in April 2018. We also recognise that for any future measures that aren't based on existing reporting we may need to introduce additional arrangements for OPR performance reporting for events outside DCC's control.

Question 3: Do you agree that the treatment of exceptional events in DCC's performance reporting needs to remain consistent between the OPR and SEC and Service provider performance measures reported in DCC's Monthly Performance Measures report? If not, please explain using evidence.

³ Defined in SEC 5.7 – Section A

Reporting

To ensure that the reporting practice is well tested and embedded before the enduring OPR comes into effect in April 2018, we will ask DCC to report to against the OPR metrics from release 1.3 when we expect DCC to be able to start to record activity against all the measures, albeit at low volumes. This will also provide an OPR performance baseline, which will be useful to inform future targets and additional measure development.

We will require DCC to report to us on the additional reporting measures listed in the November consultation. However, reporting on these may begin later than the OPR measures as DCC may need to amend reporting practice to capture all the proposed measures. Areas for additional reporting are in the November consultation and include:

- More detailed breakdown of the OPR metrics such as core service requests by type of service request and DCC service desk incidents raised and resolved by category
- New metrics not currently formally reported on such as the number of service desk incidents escalated to the SEC and responsiveness to elective communication services

Responding to this consultation and next steps

Please email us your responses to the questions above at smartermetering@ofgem.gov.uk by 19 June 2017.

After we have considered these responses we will issue the final direction in July. We wish to define the terms of the OPR soon because we consider it important to set DCC operational incentives well in advance. We intend to amend the RIGs to accommodate reporting the quality of service information and price control information for the OPR and additional reporting later in the summer.

We expect to regularly review the OPR and ensure it is fit for purpose. As the operation becomes more established, we will look to introduce additional or alternative measures.

Yours sincerely



Rob Salter-Church
Partner
Consumers and Competition

Appendix 1 Summary of consultation responses

1.1. We received eight responses to our November consultation DCC Operational Performance Regime: Final Proposals⁴. The responses were from DCC, and seven suppliers. Their responses are on our website⁵.

1.2. This appendix summarises respondents' feedback on our proposals, our response, and how we have considered it in developing our decision on those aspects not being consulted on here.

Question 1: Do you agree with our proposed measures and weightings, and proposal that the performance levels for each measure should be consistent with the SEC and service provider contracts in the enduring regime?

1.3. Most respondents broadly agreed with our proposed measures. But some of them disagreed with the weightings and our decision to only include Service User Measures (SUM) and Service Delivery Measures (DSM) in the OPR at this stage. One respondent said that a certain incident should not count negatively for more than one measure, and that outlier effects should be taken into account.

1.4. Those who did not agree with our proposals were concerned with the scope for DCC to deprioritise areas not included in the OPR, or to engage in behaviour that otherwise gamed the OPR.⁶ One respondent considered that the OPR was not sufficiently weighted towards customer outcomes and another that it did not have any measures to prioritise customers with pre-payment meters (PPM).

Our response

1.5. We welcome stakeholders' broad support of our proposed measures. We intend to keep the proposed equal weightings for the enduring OPR as we consider each metric to be of equal importance. We will ensure that the regime remains flexible enough to allow us to adjust weightings on existing measures, if appropriate, including in order to better incentivise DCC or to tackle any gaming.

1.6. We remain convinced that the priority for now, while a reliable service is still being established, is to focus on SUM and SDM measures. However, we are committed to keeping the OPR under review and developing it in order to ensure that it remains fit for purpose and is delivering the correct incentives on DCC. As such, the OPR remains flexible so that any new measures including Value for Money Measures (VMM) and Development and Innovation Measures (DMM) can be developed for including in the future. Engaging with DCC customers will be crucial to ensure that real experience of using the DCC informs any new measures.

1.7. As outlined in the main letter we consider that the OPR reporting and SEC and service provider reporting outlined in DCC's monthly performance measure report should be consistent. We will not be introducing any additional arrangements to account for exceptional events outside of DCC's control beyond what is already

⁴ https://www.ofgem.gov.uk/system/files/docs/2016/11/dcc_opr_final_proposals_0.pdf

⁵ Ibid.

⁶ Eg closing tickets or downgrading issues to provide more time to address them.

included in the SEC, service provider contracts and performance measurement methodology report.

Question 2: What are your views on our proposals for the interim regime?

1.8. Again, most respondents agreed with our proposal to introduce an interim OPR and agreed that this was a pragmatic way to ensure that DCC was incentivised while recognising that it would face a period of stabilisation. Some respondents also noted that a review of the interim period should feed in to improvements in the OPR. One cautioned against using current performance as a basis for setting performance levels for the interim regime.

1.9. Of the respondents who did not agree, concerns of one were rooted in the measures included in the OPR, and the view that they were not sufficiently weighted to consumer outcomes, rather than specifically relating to having an interim period. Another thought that given the reduction in forecast installs over 17/18, a more appropriate way of addressing teething issues in the initial period would be to a year of informal reporting against the OPR measures and wait until April 2018 before activating the OPR.

Our response

1.10. Given the new information we have received about timelines and volumes of activity this regulatory year, we have decided against introducing an interim OPR regime. Please see above in the main body of the consultation letter for more detail on our reasons.

Question 3: What proportion of its margin DCC should be able to retain for reaching minimum performance levels under the enduring regime? Please provide justification / evidence to support your view.

1.11. Four respondents who answered this question supported our proposal that 60-80% of DCC's margin would be a reasonable proportion for DCC to retain for reaching minimum performance levels. Of those, one thought that it should be at the higher end of the scale since the OPR is downside only, while another thought that the proportion should vary across measures, and be lower for those which could severely impact operational performance if not met.

1.12. Two respondents argued that the proportion of margin retained for meeting minimum performance levels should be lower than proposed. Of these, one noted that for some measures the targets were relatively low, with big variations between target and minimum performance levels, therefore the OPR needed strong incentives to perform at target level.

Our response

1.13. Respondents did not reach consensus on the appropriate amount of margin DCC should be able to retain for reaching a minimum performance level. For this reason, we consider the midpoint of our proposal (70%) as an appropriate amount of margin for DCC to retain for meeting the minimum performance level. We consider that 30% of the margin at risk provides sufficient incentive to DCC to perform at the target level. We will keep this under review and may consider amending in the future if it is apparent that a different level is more appropriate.

Question 5: Do you have any suggested methodologies for the 'new' reporting metrics for DCC?

1.14. Respondents suggested methodologies for any 'new' reporting metrics for DCC. These include:

- using online feedback to capture users' experiences to contribute to improvements in the OPR
- in the long term, capturing continued disruption eg through monitoring to track and trace the number of incidents that result in an engineer visiting a site due to DCC failure.

1.15. A number of additional metrics were also suggested for considering in the future, including devising metrics which incentivise:

- DCC to pay particular attention to PPM customers
- DCC user gateway availability;
- first time WAN connection within 30 days, and within 90 days
- responsiveness to requests by category within target response times.

1.16. One respondent noted that only those deemed necessary should be introduced and any new metrics should be realistic, achievable and designed to benefit all parties.

Our response

1.17. We appreciate respondents' suggestions on this issue. We are already considering additional reporting on some of the suggested measures and we will consider the remaining suggestions over the longer term as we further develop the OPR.

Appendix 2 – OPR measures, weighting, outcome and reference to SEC or Service Provider performance measure

	Measure	Area of reporting	Weighting		Outcome	Metric	Existing reporting obligations for this metric
1	Service User Measure 1	DCC service desk	20%	a	Resolution of incidents <i>Incentivises DCC to provide a good service to Users by dealing with incidents in a timely and efficient manner. Quick resolution of incidents could also minimise potential any disruption to the consumer experience of smart meters.</i>	Percentage of Incidents which DCC is responsible for resolving and which fall within Category 1-5 are resolved in accordance with the Incident Management Policy and within Target Resolution Time.	Combined SEC CPM (Code Performance Measure) 4 and 5*
2	Service User Measure 2	Communication hubs	10%	a	Delivery <i>DCC is incentivised to ensure Communication Hubs are delivered on a timely basis, avoiding unnecessary knock on delays to installations of smart meters.</i>	Percentage of Communications Hubs delivered on time	Reported List of Service Provider Performance Measures Schedule 11 PM 1.1
			5%	b	Quality <i>Incentive for DCC to ensure that Communications Hubs are of the appropriate quality. This should avoid unnecessary delays to installations of smart meters and prevent DCC incurring additional costs associated with replacements for faulty Communication Hubs</i>	Percentage of Communications Hubs accepted by DCC service users	Reported List of Service Provider Performance Measures Schedule 11 1.2
			5%	c		Percentage of Communications Hubs not faulty as installation	Reported List of Service Provider Performance Measures Schedule 11 1.3*
3	Service Delivery Measure 1	DCC WAN coverage	20%	a	Coverage <i>Achieving the agreed level of coverage is incentivised. This allows the benefits of smart meters to be realised by as many consumers as possible.</i>	DCC meets contractual coverage commitments in CSP contracts (all Milestone Dates in the financial year must have been met)	Included in CSP contracts, as reported annually by DCC in the Statement of Service Exemptions ⁷
				b	Reliability <i>DCC are incentivised to ensure that coverage information is accurate and communications reliable, reducing the need for multiple visits. This results in a better consumer journey and prevents additional costs for energy suppliers.</i>	Percentage of first time SMWAN connectivity at install	Schedule 2.2 Performance Measure (PM) 1.1 of Reported List of Service Provider Performance Measures*
4	Service Delivery Measure 2	Core service requests	20%	a	Response time <i>Incentivises DCC to ensure that communications are reliable and that Users receive an efficient service. Users are then able to pass down this efficient service to end consumers.</i>	Percentage of service responses delivered within the applicable Target Response Time	Combined SEC CPM 1, 2 and 3*
5	Service Delivery Measures 3	Service/System Availability	20%	a	Availability of services <i>DCC incentivised to ensure that systems and services are reliable for Users and therefore consumers</i>	Percentage availability of: - Data Service - User Gateway - Service Management System - Self Service Interface	Reported List of Service Provider Performance Measures Schedule 2.2 PM 2.1 -2.4

⁷ DCC report annually on CSP performance in the Statement of Service Exemptions. The most recent publication (March 2016) can be found here: https://www.smartdcc.co.uk/media/387459/dcc_statement_of_service_exemptions_march_2016_v2.2_final_clean.pdf